# Market Growth vs Government-facilitated Growth: E.U. and U.S. Organic Agriculture Policies

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The fact that agriculture is supported by governments in the European Union and the United States is no secret. While most sectors receive large subsidies in both regions, one sector – organic agriculture – has been treated differently in the two regions. The EU has actively promoted growth of the sector via conversion subsidies and direct payments to farmers, while the US has largely taken a hands-off approach to the sector. Thus, organic agriculture provides a natural experiment in which to compare the role of policy in supporting a sector.

There is a sound reason for the differing approaches to organic agriculture: each region has an inherently different view of organic agriculture. The EU countries view organic agriculture as a public good that delivers environmental, social, and other benefits to society, and as an infant industry needing support until the industry is mature and able to compete in established markets (Lampkin). The US states that organic agriculture offers no environmental benefits, and "USDA makes no claims that organically produced food is safer or more nutritious than conventionally produced food. Organic food differs from conventionally

produced food in the way it is grown, handled, and processed."[1] The policy approaches adopted by the two regions reflects these belief systems.

A quick look at history and institutional detail is useful when examining policy and its impact on market trends. Tracing the historical roots of the movement indicates that organic agriculture emerged in England (via the work of Sir Robert McCarrison, Sir Albert Howard, and Richard St Barbe Baker) and Germany (Rudolf Steiner) in the early 1920s (Conford). Organic agriculture did not cross the ocean until years later, when a student of Steiner, Ehrenfried Pfieffer, moved to the US (Conford). Thus, when considering the impact of policy on the industry's development in the two regions, we must keep in mind the fact that Europeans were thinking about organic farming techniques long before organic agriculture entered the minds of the Americans, and that organic agriculture was brought to the US by the Europeans.

Another factor is the role food scares have played in increasing European consumer demand for organic food. One example is mad cow disease, which provided an enormous boon to the organic livestock and dairy industry. Given the tendency of the European consumer to prefer organically produced goods, government policy favoring the production of organic foods, especially milk and meat, may have been part of a government effort to restore consumer confidence in the food supply.

[1] The National Organic Program, http://www.ams.usda.gov/nop/Consumers/brochure.html

This paper is a first effort comparing policies in the EU and US, and describes the current state of the market and policies in the two regions. The next phase of research will analyze the impact of policies in the EU and US.

**The Market**

Organic agriculture is currently the fasting growing segment of agriculture, with worldwide growth about 10 percent in 2001. Worldwide retail sales were an estimated US$19 billion in 2001(Kortbech-Olesen). The two largest markets, Europe and the United States, consumed organic products valued at US$9.0 billion and US$9.5 billion in 2001, respectively (Kortbech-Olesen).

Recent growth in the EU varies by country, with growth averaging 7.8 percent per year (The Organic Monitor). Sales of organic products are increasing in the United Kingdom and the Netherlands, although the rate of increase has been slowing, while growth in France and Italy is strictly increasing. Growth in the Danish and German organic industries has stalled. In Europe, growth in retail sales has been 25 percent a year through the 1990s, while growth in the US during this period was about 20 percent annually. The US market is currently growing faster than the European markets, with growth in excess of 15 percent per year. Growth rates for European countries are forecast at 10 to 20 percent for the next 5 to 10 years, while growth for the U.S. market is forecast at 20 percent for

the same time period, according to Kortbech-Olesen of the International Trade Centre.

Germany leads the European countries with retail sales, with sales of €3 billion in 2002 (see table), although 2002 sales were less than 2001 sales. The discovery of Nitrofen in organic grain, which had contaminated eggs and poultry, had a direct impact on organic food sales.[2] The United Kingdom and France have the next largest amount of organic retail sales (note that the latest retail figure for France is 2000). In 2001, total sales in the European Union were an estimated €7.8 billion, while total estimated sales in the US for 2002 were $8.5 billion.

In the US, fresh fruits and vegetables have been the top selling category of organically grown food since the organic food industry started retailing products over three decades ago, and they are still outselling other food categories, according to the *Nutrition Business Journal*. Produce accounted for 43 percent of U.S. organic food sales in 2002. During the 1990s, organic dairy was the most rapidly growing segment, with sales up over 500 percent between 1994 and 1999. Sales of organic yogurt increased 56.4% between 1999 and 2000. In the EU, the organic dairy and livestock industry has grown rapidly, and in some cases, more quickly than the market can handle. The supply of organic milk has (particularly in Denmark) has flooded the market (Kortbech-Olesen)

[2] Nitrofen is a weedkiller, and is banned in Germany. The grain was contaminated in a warehouse that had previously stored herbicides.

**Table: Organic Retail (Domestic) Sales for select Countries**

| Country | Denomination* |
|---|---|
| Austria (2002) | €200 million |
| Belgium (2003 est) | €173 – 216 million |
| Denmark (2002) | €269 million |
| France (2000) | € 734 million |
| Germany (2002) | €3 billion |
| Ireland (2002) | €38 million |
| Italy (2002) | €301 million |
| Netherlands (2002) | €311 million |
| Sweden (2003 est) | €302 – 345 million |
| Switzerland (2003 est) | €626 – 669 million |
| U.K. (2002) | £ 920m |
| EU (2001) | €7.8 billion |
| U.S. (2002) | $8.5 billion |

Note: *Denomination is Euros unless otherwise specified.
Source: Soil Association, Kortbech-Olesen, Nutrition Business Journal, USDA Foreign Agricultural Service, Organic Monitor, Organic Denmark, Istituto Di Servizi Per Il Mercato Agricolo Alimentare (ISMEA), Irish Examiner, USDA Economic Research Service.

*Organic Farmland*

Certified organic acres in Europe have increased from 103,000 hectares (254,519 acres) in 1985 to 4.5 million hectares (11.1 million acres) in 2001. From 1997 to 2001 U.S. certified organic acreage increased 1 million acres, to 2.3 million (Greene and Kremen). Thus, the EU has approximately 5 times as organic farmland as the US.

Italy has about one-third of the organic farms in the EU, with approximately 1.2 million hectares of organic farmland in 2002 (Willer and Richter). The amount of organic farmland in 2002, however, is about 70,000 hectares less than the amount held in 2001. Germany and the United Kingdom have more than 600,000 hectares of organic farmland, as of 2001. Austria has the highest share of organic farmland, 8.3 percent of total acreage (USDA FAS).

Organic Land in the European Union and the United States: 1995 - 2001

| Country | 1995 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|
| Austria | | 345,375 | 288,000 | 287,900[1] | 267,000 | 285,500 | 296,154 |
| Belgium | 3,384 | 6,654 | 11,871 | 18,572 | 20,265 | 22,410 | |
| Denmark | 40,884 | 64,329 | 99,163 | 146,685 | 165,258 | 174,600 | |
| Finland | 44,695 | 102,342 | 102,176 | 136,665 | 147,423 | 147,943 | |
| France | 118,394 | 165,405 | 234,800 | 316,000 | 370,000 | 419,750 | |
| Germany[2] | 309,487 | 389,693 | 416,318 | 452,279 | 546,023 | 632,165 | 696,978 |
| Greece | 2,401 | 10,000 | 15,848 | 21,280 | 24,800 | 31,118 | |
| Ireland | 12,634 | 23,591 | 28,704 | 32,478 | 32,355 | 30,070 | |
| Italy | 204,494 | 641,149 | 788,070 | 958,687 | 1,040,377 | 1,237,640 | 1,168,212 |
| Luxembourg | 571 | 618 | 777 | 1,002 | 1,030 | 2,141 | |
| Netherlands | 12,909 | 16,960 | 22,997 | 21,511 | 27,820 | 38,000 | 42,710 |
| Portugal | 10,719 | 12,193 | 29,533 | 47,974 | 48,066 | 70,857 | 86,000 |
| Spain | 24,079 | 152,105 | 269,465 | 352,164 | 380,920 | 485,079 | 665,055 |
| Sweden | | 118,175 | 127,000 | 174,000 | 171,682 | 193,611 | |
| United Kingdom | 48,448 | 106,000 | 274,519 | 390,868 | 527,323 | 679,631 | |
| EU | | | | | | 4,443,875 | |
| United States[3] | | 1,346,558 | | | 2,029,073 | 2,343,857 | |

Sources: www.biofach.de; the Organic Monitor; IFOAM; FiBL; Bundesministerium für Verbraucherschutz, Ernährung und Landwirtschaft; Minesterio de Agricultura; Plant Production Inspection Centre; Heinonen; Lampkin; Organic Center Wales; US Department of Agriculture.

Notes: 1. For the year 1998-99.

2. German hectares are certified organic. Hectares for all other EU countries reflect both organic and transitioning land.

3. The U.S. reports certified organic acreage. 1 acre equals .405 hectares.

## Organic Agriculture Policies

The kinds of policies adopted by the EU and US can be categorized into several groupings: certification and national standards; subsidizing production; setting targets for organic farmland; and nonmonetary policies to increase demand.

*Organic agriculture standards and definitions*

There is no universal definition of organic agriculture; instead, different countries (and even different certifiers) have unique definitions of organic. According to the International Federation of Organic Agriculture Movements (IFOAM), organic agriculture "…..includes all agricultural systems that promote the environmentally, socially and economically sound production of food and fibres. These systems take local soil fertility as a key to successful production. By respecting the natural capacity of plants, animals and the landscape, it aims to optimise quality in all aspects of agriculture and the environment. Organic agriculture dramatically reduces external inputs by refraining from the use of chemo-synthetic fertilisers, pesticides, and pharmaceuticals. Instead it allows the powerful laws of nature to increase both agricultural yields and disease resistance. Organic agriculture adheres to globally accepted principles, which are implemented within local social-economic, geoclimatical and cultural settings."[3] The IFOAM standard is unusual in emphasizing local production as an integral part of organic agriculture.

[3] IFOAM, *Basic Standards.* http://www.ifoam.org/standard/basics.html#6

Local production is a key element of the sustainable agriculture movement (which is distinct from the organic agriculture movement), and whether local production should be a crucial component of organic agriculture is currently hotly debated.

Nearly all countries define organic agriculture through standards, either sanctioned by the government or defined privately. The standards typically specify allowable management practices and list permissable substances that can be applied to the crops. Usually land must be farmed organically for a minimum of three years for a crop to be labeled as organic. Common to all standards is that land is farmed in an ecological system, with a careful eye towards maintenance of soil fertility. A federal seal or label declaring that a product is organic is nearly universal. The labels include Organic Farming - EC Control System (EU), USDA Organic (United States), Biosiegel (Germany), and Agriculture Biologique (France). In other countries, one private label dominates the industry, such as "BIO SUISSE" in Switzerland. Many of the standards used by European countries (and the countries that wish to export to the EU) are based on the EU's 1991 definition of organic crop production[4] and the EU's 1999 definition of organic livestock production.[5] In addition, there is an EU logo for organic products that are produced in the EU.

Switzerland's BIO SUISSE label (the main label) implicitly supports locally grown food by not allowing food transported by air to use

[4] EC Regulation 2092/91
[5] EC Regulation 1804/1999

the BIO SUISSE label. Interestingly, the BIO SUISSE label is not harmonized with the EC Regulations on organic food products.

**Table: Organic Agriculture Policies**

| Country | National Standard/Label? | Conversion subsidy? | Continuing payments? | Cert. cost share? | Target |
|---|---|---|---|---|---|
| Austria | Yes | Yes | Yes | | |
| Belgium | Blik and Ecocert - private | Yes | Yes | | yes |
| Denmark | Yes - govt | Yes (1987) | Yes | | yes |
| Finland | Yes - govt | Yes | 5 years | | |
| France | Yes - AB | Yes (1992) | | | |
| Germany | Bio-Siegel label, 2001 | Yes (1989) | | | yes |
| Greece | | Yes (1996) | | | |
| Ireland | IOFGA standards (first in 1991) | Yes | | | |
| Italy | | Yes | Yes | | |
| Luxembourg | | Yes (1992) | | | |
| Netherlands | EKO-keurmerk (private) | Phasing out in 2002 | Yes | | yes |
| Portugal | Yes (year?) | Yes | | | |
| Spain | Yes | Yes (1996) | | | |
| Sweden | KRAV - private | Yes | Yes | | yes |
| United Kingdom | Soil Association - private | Yes | Yes – 2003 | | Wales |
| United States | National Organic Program (2002) | No | No | Yes | no |

Sources: Lampkin, 2002; USDA Gain Reports; USDA; FiBL; Soil Association.

**Subsidies**

Most of the European subsidies are for production, and fall under the agri-environment programme, the 1992 Common Agricultural Policy reform.[6] The reform provides money to farmers who introduce or continue using organic production methods. Many of the subsidies currently granted by European countries were implemented under this

[6] EC Regulation 2078/92

reform, beginning around 1994. More recently (in 2000), these measures were included in the rural development programme.[7] Denmark provides subsidies for research in advancing processing and marketing of organic products. Germany provides support for marketing and marketing initiatives.

No countries outside of the EU provide subsidies for organic production, for either conversion from conventional production to organic farming systems or for continuing organic production.

**Certification cost share**

Several countries – Poland and the United States – provide financial assistance to farmers by paying all or a portion of their certification costs.

**Policy targets**

Denmark, in 1995, announced a target of having7 percent of farmland certified as organic by 2000, and nearly reached this goal by having 6 percent of farmland certified organic in 2000. More recent plans have called for 12 percent of Danish farmland to be certified organic by 2003. Germany, in 2000, set a target of certifying as organic 20 percent of German farmland by 2010. The Netherlands has set a target of 10 percent organic farmland by 2010 and 5 percent of organic retail sales by 2005. In 1999, Wales established a target of 10 percent by 2005 (Lampkin). France, in 1997, set a goal to have 3 percent of farmland and 25,000 farms under organic management by 2005. After exceeding the goal of having 10 percent of farmland managed organically by 2000,

[7] EC Regulation 1257/1999

Sweden set a new target of 20 percent in 2005. Belgium has set a target of 10 percent organic farmland by 2010.

**Other policies**

Austria recently conducted pilot studies in which organic food was served in public institutions such as hospitals and homes for the elderly. The pilot studies indicated that Austria has a sufficient supply of organic food to serve organic food in all hospitals, and that with some modifications to the menu, the cost of switching to an organic menu would be small (Rech). Denmark advocates the use of organic food in public institutions. To increase demand for organic products, Italy plans to begin a campaign educating consumers and promoting organic food. Organic food is served in some Parisian schools.

**Discussion**

While there is no doubt that the EU and US vary in their level of support and commitment to organic agriculture, we can say this unequivocally: organic agriculture in 2003 is different from organic agriculture in 1970. In some countries, organic farming was the domain of the "hippies" while in other countries organic farming had a strong spiritual basis (see Conlon for more information). Both the modern typical producer and typical consumer in 2003 differ from the ones of 1970. While some producers clearly choose organic farming methods for philosophical reasons, others do so for different reasons. Some are responding to government policy (particularly farmers in Europe) that

specifically encourages farmers to use organic farming methods. Others are producing organically to earn the higher profits. Consumers and consumer outlets have changed, too. Today, nearly every consumer is aware of organic food. In practically every country, across the world, organic food is sold in large supermarkets. Some consumers have begun purchasing organic food in response to food scares, such as mad cow disease. Other consumers seek to reduce their exposure to pesticide residues. Regardless of the cause, consumer demand for organic food in industrialized countries is explosive.

A quick perusal of the evidence suggests that the organic sector has grown rapidly in the EU and the US, and that market development began earlier in the EU than in the US. Growth in the EU was facilitated by government policy. Yet policy alone cannot explain industry growth, since the US market is flourishing in the absence of organic agriculture promoting policies. However, there are clear instances of imbalances between market demands and supplies in the EU, especially for dairy products. In contrast, the US more often experiences shortages at current market prices.

The next phase of research will involve a more careful analysis of market development and organic agriculture policy in the two markets in order to illuminate the role policy has played. The analysis will attempt to account for the different philosophical inclinations of the EU and US,

as well as the role of food crises, which have been significant in the EU and largely absent in the US.

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